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Author:

Frame, Andrew Jay

Title:

Address by Andrew Jay
Frame

Place:

[Waukesha? Wis.]

Date:

[1913]

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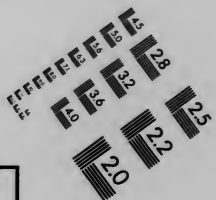


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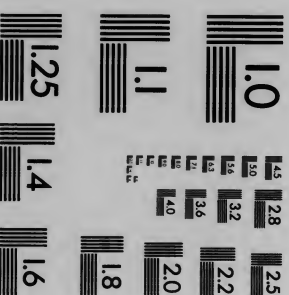
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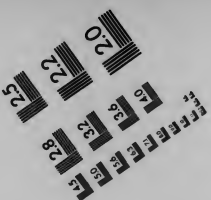
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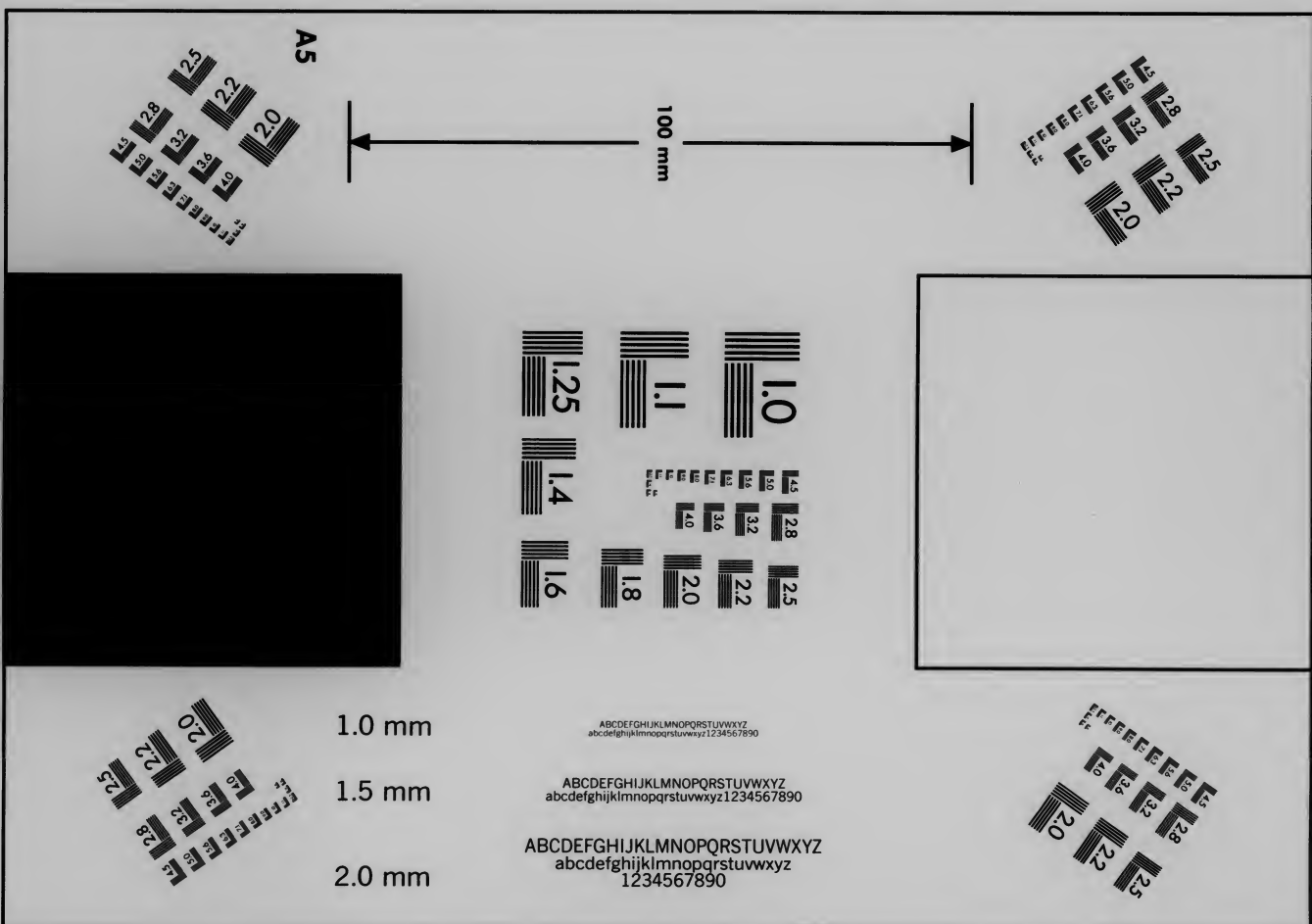
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.... Address by Andrew Jay Frame.

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"LET THERE BE MORE LIGHT"



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ADDRESS BY

Andrew Jay Frame

President of the Waukesha National Bank
Waukesha, Wisconsin

ENTITLED

**Facts vs. Fallacies
In Banking Reform**

COLUMBIA
UNIVERSITY
LIBRARY

DELIVERED BEFORE

THE STATE BANKERS ASSOCIATION

AT MUSKOGEE, OKLAHOMA

MAY 9th, 1913

Business

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READ AND PONDER—

"Truth crushed to earth will rise again." The following are a few pungent comments on the address. The Oklahoma Banker says:

"Andrew Jay Frame's address on Friday morning was the great talked of feature of the convention. His characterization of the Canadian system as one under which the "cream was skimmed" and sent to the big centers, while the local bankers gave their communities no aid or support worth speaking of seemed to aptly fit the case and made a deep impression on the audience. When he ceased to speak the much heralded Canadian and allied systems were in exceeding disrepute with the bankers of this state," etc.

The Times Democrat, Muskogee, says:

"One of the big features of Friday's convention session of the Oklahoma Bankers' Association was the address of Andrew Jay Frame" etc. Then follows a digest of nearly three columns taken from the address.

The Daily Eagle, of Enid, Oklahoma, says:

"Mr. Frame was the leading attraction at the convention of the Oklahoma Bankers' Association in Muskogee last week, and delivered an address there which officers and members of the Association believe to be the most elucidating and meritorious of any address yet delivered to Oklahoma bankers," etc.

The Morning News, of Enid, confirms in similar language.

The Editor-in-Chief of The Market, World and Chronicle of New York City, which published after the editorial—the address in full as the leading article, says:

"In my opinion the greater number of thinking people who read the address, the better. It seems to be one of the most valuable contributions yet made to the subject of so-called 'banking reform' in this country."

Further quotations seem superfluous.

SOME FACTS VS. FALLACIES IN BANKING REFORM

Great Britain, in her campaign of education on currency reform, was agitated by wide-spread discussion for twenty-five years previous to 1816 when Parliament endorsed the celebrated "Bullion Report of 1810 to the House of Commons."

Prof. William G. Sumner in his "History of American Currency" dubs this report "The most important document in financial literature."

As to ameliorating panic conditions, the paramount enunciation in that document probably was "In the presence of a panic, it is the duty of the bank to discount freely to all solvent parties." I cannot find in searching the records that this document advocates the necessity of discounting too freely in normal times. That question must necessarily be governed automatically by the law of supply and demand for money. Abnormally high interest rates are the true barometer that credit expansion has outstripped capital and in normal times, even in advancing prosperity, should be a warning that extra currency issues, which Prof. Sumner calls "fictitious capital", should not be greatly encouraged. The late Titanic disaster is a fair illustration of my meaning. Dr. Adam Smith said: "The cry of all ages is for more money." The cry of the present age is more speed in every way. The overbuoyant American needs a check rein to ensure a conservatism which gives more permanent prosperity to all, thus limiting the evils of too frequent panic periods as well as their severity.

I declare that no live, progressive nation can be entirely free from panics. Only those nations where commerce and progress are dead can enjoy the doubtful legacy. Panics will forever be with those nations enjoying great progress, expanded credit and unbounded energy. These reign here. I plead for conservatism as a safety valve to true permanent progress and relief when panic threatens.

Under Sir Robert Peel's Act of 1844, Great Britain has a very limited per capita circulation, and it is far more rigid than ours. Nevertheless, in 1847, 1857 and 1866, when panics were raging, and banks and business houses were falling like snow in a winter's storm, on government assurance that the rigid currency limitation would not be enforced, the Governor of the Bank of England publicly announced that all good, solvent bankers and merchants could obtain, at high rates, discounts for cash or credit at the Bank, the Banking Department, merely obtaining extra cash from the issue

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INTENTIONAL SECOND EXPOSURE

Business

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department, on deposit with it of ample securities. The mere knowledge that relief was at hand, history says, broke the back of the panic almost in the twinkling of an eye, and little "extra cash" was required to restore confidence. Mark the fact, relief came with "extra cash" at high interest rates, and such cash was almost immediately retired and normal conditions prevailed thereafter.

As our general banking functions in most material respects under the beneficent, independent banking systems of the United States, barring a few states without good laws, now fulfill their true mission toward the people in our phenomenal progress, it seems the only needful requirement is some flexibility to our currency issues when panic threatens, to the end that general paralysis of trade and commerce may be avoided.

To accomplish this great end, we need no monopolistic, branch banking system that even threatens to revolutionize present conditions; we need in normal times no further inflation of our present excessive currency issues; we need no additional easy methods of expanding credit by acceptances or otherwise, but as I have often said before, we do need some method of obtaining rediscounts in abnormal periods from some reservoir of extra cash, at high interest rates, purely as a relief measure to prevent the calamitous conditions of general cash suspension by banks. The citation from experience, not theory, of the Bank of England covers the point at issue, except that the barometer of a high interest rate for extra cash should be an automatic regulator of flexibility, and the bank should not be obliged to ask the Government not to prosecute for infringement of law for relief in time of trouble. The Chairman of the Monetary Commission told me he asked the Governor of the Bank of England why the government did not give this extraordinary power to the Bank for relief in troublous times, and his answer was, "We fear over-expansion of credit." My study of the subject, however, convinces me that a middle ground between the rigid English Currency system on one hand and on the other hand the demands of the banking reform advocates for almost unlimited, untaxed currency issues, even in normal times; also for monopolistic, revolutionary, complex and compound remedies at all times which are not germane to relief under pressure, holds the true solution for our troubles. Doping patients with sweetened quack medicine, when they are not ill, undermines a sound constitution. Encouraging pyramiding of credit by opening up easy methods for expansion leads to bubble blowing. It is a panic breeder and not a preventer. The Imperial Bank of Germany comes closer to covering the correct method of relief, as it can issue but 120 millions of uncovered currency, and all in excess thereof must pay a tax of 5% thereon to the government. This penalizes over-expansion of currency and is the safety valve which has kept her over-strained condition from exploding. Even this method has taxed her utmost powers to prevent a cataclysm there, as is evidenced by the German banks borrowing money of the United States banks on good collateral at rates running from 5 to 6% clear through 1911-1912 and even up to date. The banks of Germany even bid 20% for money in the New York market in December, 1911, and at several periods since have bid in excess of 6%. Notwithstanding her 5% penalized flexible currency saved her from panic, yet Germany has bordered thereon for some time, chiefly because of over-indulgence in acceptances, which are more freely granted there than elsewhere, coupled with an enthusiastic industrial development, over-taxing her surplus capital.

HANDWRITING UPON THE WALL.

Just a few more words of warning on over-expansion of credit before I leave it:

In 1890 the total wealth of the U. S. was about...\$ 65,000 millions
In 1913 the total wealth has about doubled, or.....130,000 millions
The banking power of the United States:
In 1890 was\$ 5,150 millions
In 1913 it is five times as great, or.....25,000 millions
therefore, while our wealth doubled, our pyramid of bank credits increased five-fold.

Again, the 1912 Report of the Comptroller of the Currency shows "Loans and discounts" including bonds, of all the banks in the United States about as follows:

In various classes of bonds (not government).....	\$ 4,500 millions
Loans on real estate, say.....	3,500 millions
General loans, not quickly liquidated.....	6,000 millions
Prime paper, including bills of lading.....	4,500 millions

Total.....\$18,500 millions

This indicates that only one-fourth of the total is prime paper, and the other three-fourths is in other securities, because all live paper is now promptly cared for first. The heretical demand by the banking reform advocates for 7,400 national banks to be allowed to loan their credit to their customers on acceptances, which is clearly a complication and not a relief of banks in panic periods, is condemned by twelve bankers from twelve states in a signed brief which I filed at Washington with the Banking and Currency Committee. These twelve bankers declare that if their city correspondents enter the field of accepting customers' drafts, they will transfer their balances to more conservative banks. They declare this function is the field for acceptance or discount houses, and not for banks of deposit.

It is gratifying to note that altho a year ago, when, under the title of "Diagnosis of the Monetary Commission Bill" I addressed the Bankers and Business Men's clubs of Memphis, Tenn., Little Rock, Ark., and elsewhere, and therein condemned general bank acceptances as unsafe, lately the chairman of the "Business Men's League of the U. S." reiterated my expression that "it was a dangerous proposition". Let there be more light and the whole question may be soundly solved yet without breaking all the crockery.

In face of the fact that the world's production of gold from 1490 to 1890—400 years—was.....\$7,350 millions
and from 1890 to 1913—23 years—was.....7,000 millions
in face of the fact, that the pages of history are strewn with proofs, as recorded by all the great authorities on political economy, warning us against over-indulgence in credit expansion; in face of the fact, that practically all our conservative banking journals and economic writers on the great dailies are continually sounding their notes of warning (time forbids quoting from a mass of evidence); in face of the fact, that the world's greatest political economist, Paul LeRoy Beaulieu, of Paris, France, lately declared "that the whole world's pyramid of credit was over-expanded," I ask in all seriousness is not the "handwriting upon the wall" a sufficient warning to us that conservatism—not further easy methods of expanding our currency or credit—should reign supreme? I challenge any banker or statesman for disproof of these facts.

Without further pursuit of this subject and as the new political pow-

er is wrestling with the generally supposed knotty problem, let us await the findings in hope of a sound solution.

Permit, therefore, a few logical, general statements of fact, good in any event, followed by a few of the many reasons why the independent banking system of the United States is not the worst, but the best in the world,—barring only relief in times of pressure,—in the hope that it may help enlighten our pathway.

Panics Abroad and Here.

First permit, regretfully, a reference to statements that have periodically been sent broadcast throughout the land, which are so seriously misleading that they ought not to pass without comment.

Within two years I have heard Hon. Robert W. Bonyng, a member of the Monetary Commission, in public addresses reiterate the following—

"It may be several years yet before the country will be ready for a full and scientific remodeling of our antiquated banking system." "Our faulty banking system is responsible for the many bank panics that have disgraced us in the past, and from which all other great commercial nations have been exempt for practically half a century."

David R. Forgan, President National City Bank of Chicago, before the New York Credit Men's Association, January 23rd, 1913, (see page 4, pamphlet "How to Avoid Panics"), said: "I say it is nothing short of a national disgrace that this is the only country in the civilized world that has had panics (and it has had about half a dozen) causing general suspension of the banks, within the memory of living man."

The Chamber of Commerce of the U. S. of America, at Washington, D. C., January 21, 22, 23, 1913, adopted the following resolutions:

"Our present banking and currency system based upon laws enacted fifty years ago is entirely inadequate for the present needs of the people and the business interests of the country on which the welfare of our people depends."

"That there is no necessity for the continuance of this condition in the United States, and for the recurring financial panics it tends to induce, is evidenced by the absence of such frequent financial disturbances in other countries."

These with others of a like character seem to have imbued the masses with the idea that panics do not occur abroad. Some stress is laid upon a fine distinction between the words "bank" and "commercial" panic. The Standard dictionary indicates a distinction like unto tweedleum and tweedledee. As to the business men of the Chamber of Commerce falling into error on the subject, it may be excusable, because it is not to be expected that they are familiar with the world's history on banking.

As a partial answer to these fallacious statements permit me to quote from my address of 1902 before the State Bankers' Association of Michigan.

Panic of 1836 to 1839.

Sumner's History of American Currency says, "In 1836, the Agricultural Bank of Ireland and the Northern and Central Bank of Manchester failed." They had 70 or 80 branches. "This was the first blow of the crisis which convulsed Europe and America." According

to McLeod, failures continued through 1839 before equilibrium was restored.

Panic of 1847.

McLeod, in "The History of Banking in All Nations," quotes many great bank failures in 1847 all over Britain and sums up by saying the liabilities were over £15,000,000. Further, it says, "A complete cessation of private discounts followed." Doubtless branch banks went down, but no distinction is noted.

Panic of 1857.

Again McLeod quotes a long list of terrible bank failures in 1857, and then says, "As the failures in London became more tremendous, discounts became more and more contracted. The stunning news of the stoppage of so many banks created a banking panic. Private banks stopped discounting altogether. When universal ruin was at last impending, etc." "This great crisis far exceeded in intensity that of 1847." The aggregate liabilities must have been appalling, but are not stated. Mr. Stickney, in his American Bankers' Association address stated that "In 1837 and 1838, also in 1856, there was a great commercial crisis in Great Britain, but not a bank in England or Scotland failed." As I can find no record of a crisis in 1856, must we not conclude that this date is erroneous and comment as to failures would be uncharitable.

Panic of 1866.

In 1866, according to McLeod, at the time Overend, Gurney & Co. failed for £10,000,000, the bank failures of Great Britain aggregated the stupendous sum of £50,000,000. This sum exceeds the total liabilities of all the failed National Banks of the United States since their inception forty years ago, to this date, by over £13,000,000.

Panic of 1878.

In 1878 the West of England and South Wales Banking Co. failed for £5,000,000, with forty or fifty branches. In the same year the City of Glasgow Bank failed for £14,000,000, with 131 branches. These with other bank failures carried the liabilities to over £20,000,000. The American Encyclopedia says, "The year 1878 was marked by deepening financial gloom in England, aggravated by disastrous financial failures, and the City of Glasgow Bank failure amounted to almost a national disaster."

Panic of 1890.

McLeod quotes the failure of the Barings in 1890 for £21,000,000, but for fear of a general upheaval the great banks of Britain joined together and liquidated the Barings, thus limiting the disaster materially, although other failures occurred.

Hearers, are you tired? I wonder sometimes what "standard authorities" Mr. Stickney studied when, at the American Bankers' Association last fall, he drew such a lovely picture of the magnificent banking system of Great Britain, which we, with "no system," ought to adopt to prevent panics and to become the creditor nation of the world!

Let us look for a moment at the panics in the United States.

Panic of 1836.

From 1836 to 1839 history would indicate that we, in consequence of the bank war, speculation, etc., were in bad straits as well as Britain.

Panic of 1857.

In 1857, on account of wild cat banking enjoying its widest freedom, we have no cause for claiming more than parallel conditions compared with those of Britain.

Panic of 1873.

In 1873, on account of return to normal values after the inflated prices produced by cheap money during the suspension of specie payments on account of the Civil War, we had a panic, but as to severity it did not compare with the cyclonic conditions that struck terror to Great Britain in 1866.

Panic of 1893.

In 1893 we had a panic in the United States. Not because of any special unsoundness in the banks of this country, but because the very foundation of the superstructure of our whole credit system was being undermined in an effort on the part of repudiators—thank God, not bankers—to pay off depositors and all other creditors in 50-cent dollars, and to liquidate our foreign debts by the same dishonorable method, thus aggravating panic conditions by the withdrawal by creditors abroad on account of fright in the first five months of the year of \$70,000,000 from our stock of gold. If business paralysis is not certain on an occasion when general repudiation and dishonor is rampant, then history falsifies the record. Confidence builds up, distrust paralyzes.

Let us sum up the panic records as to liabilities of failed banks—

Great Britain.

1836 to 1839 liabilities.....	No record
1847 liabilities	Over £ 15,000,000
1857 liabilities—No record except "far greater than in 1847"	
1866 liabilities	£ 50,000,000
1878 liabilities	Over 20,000,000
1890 liabilities	Over 21,000,000

In less than sixty years aggregate recorded..... £106,000,000
With 1836 and 1857 not recorded.

United States (in £)

1836 to 1839 liabilities.....	Not recorded
1857 liabilities	Not recorded
(Call conditions parallel to those of Great Britain)	
1873 liabilities of national banks	£ 2,200,000
1873 liabilities of all other banks	No record
1893 liabilities of national banks	£ 6,000,000
1893 liabilities of all banks	14,800,000

It will readily be seen that Britain has six recorded panic dates as against four in the United States in the past sixty years, and that the recorded liabilities are over £106,000,000 in Britain and but a small fraction of that sum in the United States.

According to the 1901 report of the Comptroller of the Currency, the total liabilities,

1863 to 1901 of failed national banks was.....	£37,000,000
1863 to 1896 of all other banks in United States.....	44,000,000

Making a total of..... £81,000,000

This is £10,000,000 short of the liabilities of the banks of Great Britain in the panics of 1866, 1878 and 1890 alone, not counting a single intermediate failure in the past forty years. When we come to compare historical facts with unsupported assertion, the banking system of the United States looms up so grandly that every American should feel proud. I know you will pardon me if I refer to one more bit of history, the Australian, which is an offshoot of Great Britain's branch banking system. The American Encyclopedia for 1893 says "Out of twenty-eight banks with 1,700 branches, thirteen of them with 800 or 900 branches failed in six months ending May, 1893, for the stupendous sum of £90,000,000," which sum in that single swoop exceeds the total liabilities of all the failed banks in the United States in the past forty years, although the banking power of the United States was six times that of Australia at that time. What is the cause of the financial distress in Germany for the past few years? She has had a branch banking system, too.

I say "Why do these people insist on reiterating such fallacies?" I leave the answer to my hearers.

Here is another that makes a country banker smile. An eminent branch bank advocate openly declared in public lately, "It is the country banker that causes a panic, and only the country banker."

As an answer I will simply ask: "Did the panic of 1907 originate in New York City? If not, where did it incubate?"

"Did 'the country banker' cause it?"

"Would the banks of the country, as a whole, have suspended cash payments if the New York City banks in 1907 had not suddenly wired all banks, city and country alike, that 'No cash will be paid on balances on Monday morning'?"

"Are panics born in the country or in the city where great promotions flourish?"

"Did not the 'cause' in New York produce the 'effect' throughout the country as to cash that 'You no got 'em, I want 'em'? The effect simply aggravated the cause."

One other point and I am through.

Branch Vs. Independent Banking.

As Canadian branch banking is so often lauded as a model for us, permit a brief comparison of the two systems:

1st. It requires a capitalization of not less than \$500,000 to start a bank in Canada. There are now in the chief cities of Canada twenty-seven great central banks. These own and control over 2,500 branches scattered throughout the Dominion. The number of central banks has been materially reduced in the past thirty years, and it is a scandalous fact, widely admitted, that the powers controlling make it about as difficult to get into the select coterie as to get into a safe with a jimmy. The system, evidently, borders on a pure monopoly.

2d. The stock of these central banks—no stock being issued by the branches—is held largely in London, Liverpool, Quebec, Montreal, Toronto, etc., and only a small percentage throughout the Dominion. Of course dividends follow the stockholders' residence.

3d. I understand the stock is assessed where the holder resides and branches pay a license fee to do business, also taxes on the buildings owned by the bank, but the owner of such buildings would likewise pay the tax, if rented by the bank.

4th. The branches in the country towns and smaller cities have no president or cashier and no board of directors, but are managed practically by figureheads. One man has general supervision over ten to twenty branches in separate localities and the so-called local managers take orders from him.

5th. They take the deposits from one locality and send to others where interest rates are higher. Canadian banks, I am informed, have millions of dollars invested in Mexican and South American public utilities, to the detriment of home demands.

Let us compare conditions in Muskogee and the country generally, with like cities in Canada.

Muskogee has eleven banks and trust companies with capital and surplus of about \$1,500,000—the bulk of which is owned at home. The presidents, cashiers and boards of directors are strong, influential, public spirited citizens. The local stockholders are all on the alert to upbuild Muskogee and bring profits on their stock holdings.

Under the Canadian branch banking system the Muskogee presidents and cashiers would be set aside and the directors abolished. There would be comparatively no stockholders, even of the central banks, and assistant cashiers would be the managers of the branches. As self-interest is the first law of nature, this wrecking of the powerful influence for good of all these elements would breed indifference.

Again, as taxes are paid in Oklahoma on capital and surplus, Muskogee would get filched out of over \$30,000 per year in bank taxes. If the stock is not all held now in Muskogee, it soon will be under your thrifty conditions; then, if stockholders get but 6% per annum on their investment of \$1,500,000, that would mean \$90,000 less per annum for distribution in Muskogee, plus any undivided profits, all of which, if the Canadian system were adopted in the United States, would go to 100 or 200 great central banks of New York, Boston, Philadelphia, Chicago, etc., which would have the 25,000 present independent banks as tails to their big kites. A beautiful and enticing picture for Muskogee and the country generally. I appeal to you, gentlemen, is it not a fact, that those allied to the ownership and management of the independent banks of the country have been wonderfully instrumental in the onward and upward progress of your farm sections, your hamlets and your cities? If we upbuild these, do we not upbuild the great cities and the nation as a whole?

Contrast these facts with the further ones that Canada, with splendid resources, has a territory about equal to the United States, with a population of but seven and a half millions; that her whole banking power is not equal to that of Massachusetts alone; that the Monetary Commission reports and other authorities show that

the comparative losses to depositors and stockholders of Canadian banks, as compared to our national banking system, is as three to one in our favor; that interest rates are neither uniform, nor are they lower than in the United States; that these same reports, as testified to by the general manager of the Bank of Nova Scotia, showed comparatively five banks failed in Canada to one national bank in the United States since 1880; that according to the same general manager—

"In 1880 there were in Canada.....41 banks
Incorporated since (to 1906)..... 7 banks

Total.....48 banks
of this number twelve have failed, and some others saved themselves by amalgamation"; (To-day but twenty-seven are left); that Canada, notwithstanding she is bolstered up with great floods of British capital, invested in her railways, banks, etc., yet she is practically asleep compared to the wonderful energy of our people,—and then ask yourselves if I am not justified in declaring "the Canadian branch banking system skims the cream from the country, to enrich the exchequers of the monopolists in the great cities, while the independent banking system of the United States helps wonderfully to upbuild the nation as a whole."

In an address at Wausau, Wis., last March, I made these statements, merely in a comparative way, and it seems to have hit the branch bank advocates in the solar plexus, as they grew hysterical over it. If it is a dead issue, why should they get excited? The country better nail up the coffin if the issue is dead.

Perhaps a little Canadian testimony will not detract from my contentions. Therefore, permit a short quotation from a 1912 weekly edition of "The Toronto Star" which has a daily circulation largely in excess of any of the other six dailies there.

Preceding a well written, logical four column article, the following strong headlines appear in The Star:

"MONSTER BANKING MONOPOLY A LEECH AT CANADA'S THROAT, KILLING LOCAL INDUSTRY, DEPOPULATING RURAL DISTRICTS.

**"Centralization of Almost Entire Financial Power of Dominion In
the Hands of a Few Capitalists Has Resulted from Our
Much-Vaunted Banking System.—Almost Total
Extermination of Local Banks."**

I quote but two extracts therefrom, to-wit:

"While large capital insures slow, steady transmission of deposits to 'branches' for control, and use of head offices in smart, alien centers, local credit based on local savings is transferred to parasites on whom rests neither responsibility, object, nor desire to exercise banking functions in support of local enterprises. With such credit basis lost, not only does the collapse or absorption of local bank institutions become inevitable, but local aspirations and confidence which had sustained local industry are wiped out or made dependent on the will and nod of competitive enterprise. So secretly, so gradually, does this sequestration of savings proceed, so insidiously are local enterprises undermined, that planting of a 'branch' to suck out local earnings, to extirpation of even the last local industry or institution, is embraced by 'slow going' people with the same artless innocence as a three-years child fondles a viper."

"To this accursed system of concentration of credit, and destruction of local industry, the Dominion of Canada stands indebted for a contracted population of 7,000,000 in place of 25,000,000 rightfully due it under decentralized systems of banks designed to sustain, to breathe the breath of economic life through the remotest, as well as the most insulated of its parts."

This indictment from a Canadian rather outstrips mine.

Permit one other point not brought out heretofore.

As all ordinary banking functions are carried on in the banks of the United States at least as well as in Canada,—I should say better, because our state banks loan on real estate, and Canadian chartered banks do not,—I suppose the oft repeated assertion as to the wonderful elasticity of Canadian bank currency ought to be referred to. It probably is not generally known, but the fact remains that Document No. 583 clearly shows that a hard money market obtained in Canada in 1907. The Canadian banks, with large New York City deposits and demand loans, reduced both and shipped all the cash they could get to Canada, and to further aggravate the New York situation, these Canadian banks transferred

large amounts of their New York balances to London. Deposits in Canada declined \$30,000,000, and the loans \$25,000,000, in the last two months of 1907. The Dominion suspended the limitation on issues of currency and \$5,115,000 of "emergency currency" was issued. I cite these facts to show that slow-going Canada has her troubles too. Even if her currency system did pull her thro without cash suspension by her banks, we cannot adopt that system without adopting her branch system with it. For proof, Mr. J. B. Forgan, who is an ardent advocate of the Canadian system, in 1902 declared in an address "To me the simple statement that about 10,000 (now double that number) banks with capitals running all the way from \$25,000 to \$25,000,000 would have the privilege of issue, settles it as impractical and impossible."

Query—Do we wish to surrender our independent system and adopt the monopolistic, "cream skimming" Canadian system? Friends, draw your own conclusions. I refrain from wasting any more powder, altho there is abundance left.

As a constructive policy is the real issue, I respectfully close with the following:

Condemning the best banking system the world ever knew, with a small "mote" in it, and glorifying the monopolistic branch banking systems of other nations with big "beams" in them, will not eradicate our single defect. We can only ameliorate panic conditions, but not through a big bank with many branches which will enter into severe competition with existing banks; not through acceptance privileges to 7,400 national banks which would only aggravate our already overstrained credit; not by additions to our present inflated currency. These simply spell monopoly, inflation of currency and credit. They are panic breeders and not preventers. On the other hand, we can if we will prevent cash suspensions by banks and thereby ameliorate panic conditions through either of these simple methods.

I care not for the method, if results are obtained, barring objections stated. As the political party in power has turned down the Monetary Commission Bill I respectfully offer under first a new suggestion for earnest consideration and then mention two others well understood.

1st—Permit the banks of the country to deposit in the Treasury Department at Washington or other depository out of present reserves, as follows: (estimated) 5% of deposits from the three central reserve cities; 2% of deposits from the three general reserve cities; 1% of deposits from the country banks. This would mobilize say \$300,000,000 in cash now held as reserve and therefore would occasion no loss to any bank. In ordinary times country banks can obtain rediscounts as they do now—thro their city correspondents. When trouble threatens in any section, this vast reservoir of ready cash will be open to "discount freely to all solvent parties" at high rates, and the mere knowledge that relief can be had will impart general confidence. Its operation should be like unto a water reservoir, to put out a fire in its incipency and refill again ready for future troubles—not a money maker. A servant, not a master.

2d—Extend the privileges of the Aldrich-Vreeland Act to all banks on a uniform form of currency. There are 1,200 millions of dollars of bonds now in the banks of the United States, eligible for use to obtain extra cash in troublous times, and the Treasury department holds 500 millions of national bank notes for this purpose.

3d—Legalize clearing house certificates on which extra uniform currency can be had when panic threatens.

Either of these will cure our single material defect. We will also maintain our splendid independent system intact. We must turn a deaf ear to the siren song of those who argue so loudly for complex and compound remedies. They are worse than the disease.

Brother Bankers, why should we not get together by eliminating all complex and compound matters, not germane to the end in view, and decide upon a simple remedy for relief in the day of trouble? That is all we need, as banks which cannot take care of themselves in ordinary times are unworthy to live. This is the whole thing in a nut shell.

ANDREW JAY FRAME.

Waukesha, Wis., May, 1913.

QUERY

It is a maxim that currency is not capital. In developing days the special privilege of issuing currency by banks as a substitute for capital seemed justifiable. To-day that function by banks generally is unjustifiable, because great accumulations of surplus capital have cut interest rates to less than one-half of those of fifty years ago; because our per capita circulation—mostly gold or gold certificates—more than doubled in that period, and because our credit is over expanded now, therefore,

If a bank extends its loans to the limit of its assets (total loans are now over nine times the capital of all banks) then swaps its printed I. O. U.s without interest, in exchange for its customer's note drawing 5 per cent interest and upwards, does not that act spell bubble blowing?

Is not a measure for relief in the day of trouble, like unto a governor on an engine, all we need?

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